
COVER FEATURE

Defense Exports in the Post-Desert Storm Environment

On 17-18 July 1991, the Defense Security Assistance Agency (DSAA) and the Defense Institute of Security Assistance Management (DISAM) presented the Fourth International Military Assistance Symposium in Dayton, Ohio. The theme of this year's symposium was "Defense Exports in the Post-Desert Storm Environment." In attendance were 210 members from industry, academia, foreign nations and the U.S. Government. The following is a list of topics and guest speakers, in order of their appearance on the symposium agenda.

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- Department of State Perspectives—Mr. Sinclair S. Martel, Deputy Assistant Secretary of State (Regional Affairs and Security Assistance), Washington, DC
- Congressional Concerns—Mr. Ivo J. Spalatin, Staff Director, Subcommittee on Arms Control, International Security, and Science, of the House Committee on Foreign Affairs, Washington, DC
- Defense Acquisition Views—Mr. Bruce C. Bade, Director, NATO and Europe Programs, Office of the Under Secretary of Defense for Acquisition, Washington, DC
- Department of Defense Issues—The Honorable Henry S. Rowen, Assistant Secretary of Defense (International Security Affairs), Washington, DC
- Department of Commerce Interests—Mr. Theodore A. Rosen, Deputy Assistant Secretary for International Operations, Department of Commerce, Washington, DC
- USCENTCOM Experiences—Colonel Robert LaTourrette, USAF, Deputy Director for Security Assistance, United States Central Command, MacDill, AFB FL
- ACDA Interests—Dr. Joseph P. Smaldone, Chief, Weapons and Technology Control Division, Arms Control and Disarmament Agency, Washington, DC
- Defense Industry Views—Mr. Joel L. Johnson, Vice President, International, Aerospace Industries Association of America, Washington, DC

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- DSAA Perspectives—Lieutenant General Teddy G. Allen, USA, Director, Defense Security Assistance Agency, Washington, DC
- Other Country Military Sales—Dr. Richard F. Grimmett, Foreign Affairs and National Defense Division, Congressional Research Service, The Library of Congress, Washington, DC
- Foreign Purchaser Perspectives—Lieutenant Colonel Hai Ben-Israel, IAF, Israel Foreign Liaison Officer, HQ AFLC, WPAFB, OH

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- Workshop, Section I

Defense Trade Policy—Mr. W. Scott Miller, Acting Director, Office of Defense Trade Policy, Department of State (PM/DTP), Washington, DC

American League for Exports and Security Assistance—Major General James E. McInerney, Jr., USAF (Ret), Executive Vice President, ALESA, Washington, DC

U.S. Customs Service Export Control Enforcement Program—Supervisor Special Agent E. Meade Feild, Strategic Investigations Division, Office of Enforcement Procedures, U.S. Customs Service, Washington, DC

- Workshop, Section II

Defense Export Licensing Procedures—Mr. Alan Suchinsky, Branch Chief, Arms Licensing Division, Office of Defense Trade Controls, Department of State (PM/DTC), Washington, DC

Legislative Issues—Dr. Michael Ryan, Deputy Director, Plans, and Lieutenant Colonel Carla Stucki, USAF, Director, Congressional Relations, DSAA, Washington, DC

The Special Defense Acquisition Fund—Dr. Greg Cleva, Chief, SDAF Division, DSAA, Washington, DC

We are indeed fortunate to be able to reproduce the prepared remarks of three of the guest speakers—The Honorable Henry S. Rowen, Assistant Secretary of Defense (International Security Affairs); Lieutenant General Teddy G. Allen, USA, Director, Defense Security Assistance Agency; and Mr. Sinclair S. Martel, Deputy Assistant Secretary of State (Regional Affairs and Security Assistance).

Mr. Rowen:

Good morning and thank you for inviting me to come here. I was told by my speech writer that this is my last speech as the Assistant Secretary of Defense and I am glad to have the opportunity to deliver it here with this audience. As some of you might know, next month I will return to Stanford University. This morning, I will speak on the world's security environment; the initiative for arms control in the Middle East; the status of the U.S. security assistance program; and conclude with a few remarks on the international arms market.

My tenure at the Pentagon has been a busy one. Two years ago when I came to the job, there were two Germanys and one Soviet Union. The Berlin Wall and the Warsaw Pact were still there. Ortega and Noriega were still heads of state. Iraq and Kuwait were still polite neighbors. Perhaps outside of this audience, few



had heard of Patriot missiles or General Norman Schwarzkopf. And the world's greatest fundraiser, that has collected almost \$50 billion for the U.S. Desert Shield/Storm, had not yet been thought of. All of that has changed.

The momentous events of Eastern Europe and the Soviet Union since the Fall of 1989 have altered the political and security landscape in Europe. After 40 years, the Cold War finally ended bringing down with it the Soviet Empire and the threats of a Soviet-led invasion of Western Europe. Today, the Warsaw Pact no longer exists. Eastern European countries are moving from communism and central planning economy to democracy and free-market system. Some of them are less successful than the others but the trend toward liberalization is clear. The Soviet Union, however, is confronted with immense internal problems. It faces an economic crisis, a political crisis, and a nationalities crisis. How these crises will unfold, no one knows. As a relevant point to this audience, the economic crisis in the Soviet Union will put tremendous pressure on the Soviets to earn hard cash, and if there is any product that has any value from the Soviet Union, it is weapons. So while we will see fewer Soviet weapons abroad, we will see more advanced ones being sold for real money.

Outside of Europe, there have also been many favorable changes. In East Asia, the Soviets have reduced naval activities, cut troops along the Soviet-Sino border and removed aircraft from Vietnam. In Southwest Asia, the Soviets have left Afghanistan. In Africa, the Cubans are out of Angola and Mengistu finally fled Ethiopia. In Latin America, democracy has returned to Panama, Nicaragua and Chile.

On the other hand, there are sources of instability which may affect U.S. interests. In Northeast Asia, North Korea continues to threaten the South, and the North's nuclear program is a serious threat to the stability of East Asia. In South Asia, the tension between India and Pakistan, which could lead to open conflicts and even a nuclear confrontation, is a concern to us. In the Middle East, while Iraq is much less of a short term threat, it remains a longer term one. So is Iran. And the Israeli-Arab conflict is an on-going source of concern. In Latin America, some of the democracies look fragile and the narcotics trade is spreading violence. An increased effort in counter-narcotics will continue to demand resources, including equipment, technology, and services that many in this audience might be able to provide.

Beyond those, a major concern is the worldwide proliferation of weapons of mass destruction and missile technology. Many third world nations now have one or more of these weapon technologies. The Gulf War showed how these technologies, like Scud missiles, can be used to terrorize the civilian population. Our past initiatives such as the MTCR (Missile Technology Control Regime) brought some success in preventing the spreading of advanced military technologies to unstable regions. However, much more can be done and is indeed being done.

Last month, the President launched an initiative for arms control in the Middle East which focused on eliminating weapons of mass destruction and enhancing regional stability. The starting point of this process is with Iraq. The U.N. Special Commission is working hard to locate and destroy Iraq's arsenals of weapons of mass destruction. Although Iraq has formally accepted all U.N. conditions, its government continues to lie, cheat, and obstruct the work of the Special Commission. One should not expect full compliance by Iraq as long as Saddam is in power.

As called for in the President's initiative, the five permanent members of the U.N. Security Council met last week in Paris to discuss ways to stop the proliferation of weapons of mass destruction and to control the flow of conventional arms to the Middle East. Specifically, the Members agreed to develop more stringent control measures to prevent misuse and diversion of

equipment and materials related to weapons of mass destruction. They also supported the establishment of a U.N. arms transfers register to increase the transparency of arms exports.

At the same time, the Members recognized that the transfer of conventional weapons, conducted in a responsible manner, should contribute to the ability of countries to meet their legitimate defense needs and to participate in collective measures to maintain or restore international peace and security. In this aspect, I want to emphasize that the past arms transfer policies of the United States, our supply of arms to Israel and to moderate Arab nations, did not contribute in the slightest to the instabilities of the Gulf. Indeed, it was the military weakness of the Gulf Arab states that encouraged Saddam to move against Kuwait.

The fact is that without these American sales, without the resulting interoperability of U.S. and Saudi systems, and without security relations built over decades, the defense of Saudi Arabia and the liberation of Kuwait would have been much more difficult. In particular, U.S.-built air bases and other support facilities—which constituted over three quarters of our military sales to Saudi Arabia over the past four decades—were vital to our ability to deploy forces quickly. For instance, the First Tactical Fighter Wing, the first unit we sent to Saudi Arabia was in U.S.-built Saudi air bases within 14 hours of the President's decision to go.

As important, the close military-to-military ties we have built up with the Saudis, Egyptians, and others in the Gulf, including common military doctrine and training, allowed our soldiers to work well together from the beginning. Again, it would have been impossible for us to respond to Saddam Hussein's aggression as quickly and successfully as we did without these ties.

It is important to understand what purpose this arms control effort serves. Arms Control is not an end in itself. It is a means to stability in the Middle East and what we hope will be lower levels of armament. The President's initiative should be seen as a part of our broader strategy in the region, along with the creation of a better regional security arrangement to replace one that failed on August 2, 1990, the peace process, and regional economic development. These elements are mutually reinforcing; progress in one area helps progress in others.

That brings me to the importance of U.S. security assistance. For many years, security assistance has been an important tool of U.S. foreign policy. It helped our friends in their fights against enemies. It supported our strategy of containing the Soviet power. The results have been rewarding. All of the positive developments that I mentioned earlier—the collapse of the Soviet Empire, the process of democratization worldwide, the victory of Desert Shield/Storm—can be traced back to the success of our overall security strategy, of which security assistance has been an essential element.

Today we are practically out of [the] security assistance business in South America, Africa, and Asia except for the Philippines. Since 1985, the security assistance budget has been reduced by 35 percent in real terms. Excluding Israel and Egypt, the budget reduction for that same period is 60 percent. Today, the program is dominated by two countries: Israel and Egypt which absorb 65 percent of the security assistance budget. For the developed and peaceful regions of the world, this drawdown trend is appropriate. In part, this trend reflects success and warrants our phasing down the business. But for other regions, our security assistance is still much needed—but selectively.

Before closing, I would like to say a few things about the international arms market. I don't expect to see a significant increase in aggregate demand for arms. The overall value of arms transfers in the 90's is expected to decline by 20 percent in real terms compared to the 80's. The arms imports trends will vary among regions of the world. As the result of the Gulf war, several Mid-Eastern countries might import more weapons, but any increase in demand will probably be

more than offset by the decline in others; especially, since Iraq, the world's largest arms importer in the 80's, is forced out of the market for some time to come.

In Eastern Europe and the Soviet Union, arms imports will probably fall dramatically with the end of East German purchases and force reductions by other countries.

Within the Western Alliance, there will be defense cuts due to reduced threats and increased fiscal constraints. We will cut our armed forces by 25 percent during the next four years, as will the U.K. And others are considering similar reductions.

For the Third World, which consumed three-fourths of the arms market, we will see a moderate fall, in large part due to cuts in Soviet military grant aid. Countries with clear defense needs and adequate resources, like Saudi Arabia, the UAE and South Korea, may expand their military capabilities and buy more. However, for others, the demand will be softened. For some, they simply will not have financial means to buy more weapons.

The lessons of the Gulf War will likely influence the selection of weapon systems and the future composition of military forces. The buyers may reallocate, rather than increase, their defense budgets to accommodate systems that performed well in the Gulf. They understand that advanced weapons outclassed simple ones and that it's often more efficient to use precision weapons in combat. Besides major systems, fighter aircraft and tanks, the market will demand more smart munitions, command, control and communication capabilities, electronic warfare and surveillance systems. In this high end of the market, U.S. companies tend to do well so I expect the U.S. will benefit from this buying pattern.

As for other arms suppliers, the Soviet Union faces reduced purchases by its largest paying customer, Iraq, and will be selling arms for hard currency rather than, as in the past, giving them away. West European suppliers will also lose sales to Iraq but might gain some additional sales to other Arab countries. Smaller suppliers such as China, Poland, and Brazil will probably face decreasing demands for their less capable arms and munitions.

That's about all I want to say on the arms market. I thank you again for the opportunity to share these thoughts with you

Lieutenant General Allen:

I am very pleased to be able to talk to you on my perspectives on defense exports in the post-Desert Storm environment. My purpose today is threefold: to provide some background on DSAA and the U.S. Government's military sales and assistance programs; to discuss the challenges facing these programs in the aftermath of the Cold and Persian Gulf wars; and to identify some of the things DSAA is doing to maintain these programs' effectiveness.

My outfit, the Defense Security Assistance Agency, is the organization within the Office of the Secretary of Defense which administers the U.S. Government's military sales and assistance programs. These programs include the govern-



ment-to-government Foreign Military Sales or FMS system—the Foreign Military Financing or FMF program—and the International Military Education and Training or IMET program. DSAA primarily is a policy and oversight organization—the Services actually implement the programs.

Military sales and assistance are big programs. We have over 20,000 open FMS cases valued at \$170 billion—and \$70 billion worth of previously-ordered defense articles and services in the pipeline. In fiscal year 1990 alone, countries accepted approximately 3,300 new FMS cases worth over \$14.2 billion. For fiscal year 1991, Congress appropriated \$4.6 billion for FMF assistance—which we allocated to 33 countries and regional programs—and \$47 million for IMET assistance—which we have provided to 105 countries.

FMS made an important contribution to the success of the coalition forces during Operations Desert Shield and Desert Storm.

Early in the crisis, we delivered roughly \$950 million of emergency defense articles and services to Saudi Arabia—including F-15 aircraft and M60A3 tanks. We currently are implementing additional cases for Saudi Arabia—worth \$7.3 billion. Equipment and services were also provided on an expedited basis to many other coalition allies. Overall, we opened more than 300 FMS cases with coalition allies during the conflict—valued at over \$12 billion.

Because of our military sales and assistance programs over the years with our coalition allies, our forces, which shared many of the same types of equipment, were supported by a common logistics system, and had the advantage of a long history of cooperation. Moreover, in Saudi Arabia, much of the military infrastructure that enabled such a rapid build-up of a very large force there was built under FMS programs.

While the military sales and assistance programs have been very successful, they are, nonetheless, challenged and constrained by a number of external factors.

First, the decline of the Soviet threat in the post-Cold War environment has led some to question the continuing need for U.S. military assistance for many traditional recipients. Add to this the constraints of the U.S. federal budget, and U.S. military assistance funding appears to be locked into a downward trend for the foreseeable future.

Second, the Gulf War has brought conventional arms control to the fore. As President Bush has announced, the United States will pursue with other major arms suppliers, measures to ensure that arms transfers to the region only support a stable and secure situation in that part of the world. However, there are others who would prohibit all U.S. defense transfers to friends and allies there. We believe that a prohibition on defense transfers could undermine the region's stability by preventing us from assisting friends and allies to meet their legitimate self-defense needs. Also, effective arms control must involve all major suppliers.

Third, it is increasingly difficult to administer military sales and assistance programs as our Congress has become more involved. Our contribution to the fight against illegal drug trafficking offers a case in point. It is no longer sufficient to review the foreign assistance appropriations bills to find out what we need to know about the anti-drug effort. Now we have to review the omnibus drug bill, the defense authorization and appropriations bills, and others. We need to look at more pieces of legislation, not only in a negative sense, but even to get a clear picture of what opportunities exist, and what is required for us to further national objectives.

While many of the constraints and challenges I just discussed are beyond our control, we are doing what we can to maintain the effectiveness of our military sales and assistance programs.

Two years ago we succeeded in getting fair pricing enacted into law. This prevented us from having to increase the FMS administrative surcharge. It also allowed us to stop assessing the asset use charge on sales.

Working with our colleagues in the acquisition side of DOD, we recently succeeded in changing the *Defense Federal Acquisition Regulations*—to allow offset administrative costs to be included in cash-funded, FMS Letters of Offer and Acceptance. This is a change that industry, and some countries, have long sought.

DOD also took a much larger role this year in the Paris Air Show. We are pleased with the results, and intend to do more of this.

Finally, we actively are supporting enactment of the Administration's legislative initiative to authorize U.S. government guarantees for private financing of commercial defense sales to creditworthy countries. While we didn't find support in the House for the Administration's initiative, Senator Dodd has introduced legislation which attempts to meet the objections raised in the House while still providing the guarantees. We hope that a guarantee program can be enacted this year.

We no longer have the ability to open doors and develop long term relationships with countries around the world through the use of an open pocketbook. Rather, we must continue to find new ways to establish these relationships so that the larger goals of our nation can be met. The achievements and initiatives I just cited are examples of our efforts to find new ways to carry out our mandate. They address several ways we have available to bring change to the system. This symposium is another. We need your input if we are to be successful. We want and we need dialogue within the entire security assistance community. This is a good start—let's keep it up.

Mr. Martel:

It is indeed a pleasure again to attend this annual symposium on military assistance. Assistant Secretary of State for Politico-Military Affairs, Richard A. Clarke, who spoke here last year, sends his regrets at being unable to make a repeat appearance.

What a Difference a Year Makes

A lot has changed in the year since we last met here. Some things have not. In preparation for these remarks, I looked back at the prepared text of Dick Clarke's address to this symposium one year ago. He mentioned criticism received from capitol hill about the Administration's "business as usual" and "Cold War" approach to its security assistance budget submissions. That criticism was repeated again this year. Some things haven't changed. I will address that criticism shortly.



One of Dick Clarke's themes last year was that we have friends who live in tough neighborhoods and we should help those friends meet their security needs. He specifically

mentioned the expansion and modernization of Iraq's arsenal and the acquisition of missile and chemical technology by powers who had shown no reluctance to use them.

We did not know then that, exactly two weeks later, Saddam Hussein would roll his military machine into Kuwait and, in quick order, absorb that country as Iraq's 19th province. Saddam, of course, was unable to sustain that action, but we are not here to discuss Desert Shield and Desert Storm themselves. Rather, we want to look at the the future of defense exports in light of Desert Storm.

Desert Storm Vindicated Our Approach to Security Assistance

A year ago, it looked like major changes were in store for the U.S. security assistance program. The clamor in Congress, the media, and academia was that the administration was doing business as usual despite historical changes in the world such as the dissolution of the Warsaw Pact and the terminal illness of "Communism." The threat was no longer there, so why have a large military assistance and sales program?

Well, a funny thing happened on the way to an overhaul of the security assistance program. Desert Storm showed that maybe the way we had been doing business wasn't all bad.

In our opinion, and this is what we are saying to those who accuse us of business as usual, Desert Storm vindicated the policy direction we have been following on security assistance for the past quarter century and longer. Let's look at the record.

The program has been heavily criticized by some because of its emphasis on a small number of countries—and, over the perceived tie between that assistance and base rights in some of those same countries. I am speaking, of course, of Israel, Egypt, Turkey and to a lesser extent Greece, Portugal and the Philippines. Among them they account for 93 percent of our proposed foreign military financing (FMF) and 69 percent of our proposed economic support fund (ESF)—percentages which have not varied markedly since the signing of the Camp David Accords and reinstatement of our assistance program to Turkey in 1980.

Without the full, unstinting support of those countries, and others with which we enjoy a security relationship, we would not have had the success we did in Desert Storm.

To amplify the point:

- Without the close political and military relationship we enjoy with Israel, how would we have convinced the Israeli government not to intervene in response to Saddam's provocations—both verbal and actual? Our security assistance program is a key building block of the U.S./Israeli relationship.

- What would we have done had Turkey not closed its oil pipeline with Iraq immediately after the invasion of Kuwait? Without that strong signal from a key player in the region, the entire sanctions regime might have broken down. In a bold move, Turkey acted even before Saudi Arabia, which was directly threatened by Iraq, took the same action. Turkey also permitted us extraordinary access to its military facilities to help stabilize the northern front and to operate in the air over northern Iraq, an operation enhanced significantly by the established relationships and common equipment in our respective inventories.

- Would an Egypt still attuned to Soviet tactics and operating Soviet equipment been as eager and as able to play a major role in the coalition? How would we have moved the massive amounts of personnel and equipment to the gulf without access to Egyptian bases?

- This last point applies as well to Portugal and France. Lajes, in the Azores, once again proved its importance in the rapid deployment of U.S. forces. There, as in Egypt and other countries which assisted in these operations, commonality in equipment and familiarity with U.S. procedures made the Desert Storm deployment possible.

- Greece, traditionally sensitive to non-NATO use of its military facilities, was extremely responsive to our requests for overflight, landing, and use of facilities to support the deployment. Greece, of course, also participated in the naval sanctions enforcement effort with, by the way, ships loaned through our assistance programs.

- The Philippines, another large security assistance client, also made a significant contribution to Desert Storm efforts. Our bases there facilitated the movement of people and materiel from U.S. forces in Korea and Japan to the gulf area. Philippine authorities were extremely forthcoming on short notice requests for transit and access.

Post-Desert Storm Military Assistance

I could cite numerous other examples including some countries that are FMS and cash commercial customers and which do not receive FMF grant money. One of those, Spain, is a relatively recent graduate of the FMF program. The bottom line is that the network of relationships, commonality of equipment and understanding of U.S. military operational procedures that we have developed through our security assistance programs served us well in a time of real need.

What changes in military assistance and defense exports do we anticipate in light of our Desert Storm experiences? There will be some, but the fundamental elements of our policy remains unchanged. The U.S. government's security assistance program in the post-Desert Storm environment and for the 1990' s remains based on the five foreign policy objectives delineated by Secretary Baker to Congress. Briefly they are:

- One: promote and consolidate democratic values;
- Two: promote free market principles and strengthen U.S. competitiveness;
- Three: promote peace by helping defuse regional conflicts, strengthening the security of regional partners and our cooperation with them, and pursuing arms control and non-proliferation efforts;
- Four: protect against transnational threats, especially to the environment and from narcotics and terrorism; and,
- Five: meet urgent humanitarian needs.

The Best of Times, The Worst of Times

The defense export industry in a post cold war and post Desert Storm environment, in some ways, is in a best of times/worst of times, good news/bad news, situation.

Best of times—the west won the cold war without firing a shot. Worst of times—the very defense industries, which contributed so much, face contraction and consolidation because military budgets are being slashed by 25 percent.

Good news—the Gulf War was won primarily by American technology and arms. The demand for American goods is at a peak. Bad news—at the same time, there are calls for a moratorium on arm sales to the Middle East region.

High note—current predictions in the industry are that the percentage of export business will increase significantly in the years ahead. Low note—the total business base will decline because of the drastic reductions in Pentagon spending.

Plus—COCOM controls have been relaxed significantly and trade liberalized. Minus—the U.S. and others are putting into effect new trade restrictions, such as the U.S. Enhanced Proliferation Controls Initiative (EPCI), to control the flow of dual-use technology that could contribute to the proliferation of weapons of mass destruction.

The President's Arms Control Proposal for the Middle East

Let me pick up on the point about an arms moratorium in the Middle East. The Administration believes that a moratorium is unworkable. Arms control is virtually an unknown phenomenon to governments in the region. So, while we may have ambitious plans for arms control in the Middle East region, we know we are at the beginning of what will be a long process.

That process began with President Bush's plan announced in Colorado Springs on May 29th. The Colorado Springs plan is important to this group and germane to the theme of this symposium because its elements probably will govern, for some time, how we transfer arms in the Middle East region in the post-Desert Storm environment. The proposal has two main parts.

The first pertains to weapons of mass destruction in the area. It calls for an arms embargo on Iraq and the elimination of its weapons of mass destruction. This is well underway through the highly-publicized efforts of the UN special commission. On a regional basis, the proposal addresses ballistic missile, chemical, biological and nuclear weapons. In the long term, we seek the Mubarak Plan of a region free of all weapons of mass destruction. We know that can come only when the peace process comes to fruition.

The second part deals with the transfer of conventional arms in the Middle East region.

A meeting of the five powers who are the largest exporters of arms met in Paris last week (July 8/9, 1991) to discuss the President's initiative. The U.S. delegation was headed by Undersecretary of State for International Security Affairs, Reginald Bartholomew and included Dick Clarke who has played a key role in the plan since its conception. The reaction to the President's proposal was superb. I brought copies of the meeting's communique for your information. [Editor's note: this communique is reprinted on pages 15-16 of this issue.] The United Kingdom, France, the USSR and China agreed, based on the U.S. proposal, to:

- Establish a continuing process among the five on arms transfers and proliferation in the Middle East;
- Develop expeditiously common guidelines for conventional arms transfers;
- Create a mechanism to exchange information and consult on conventional arms transfers to the Middle East;
- Harmonize their export controls on weapons of mass destruction-related material; and,

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- Urge Middle East States to adopt the major elements of the President's proposal, including a freeze leading to the eventual elimination of surface-to-surface missiles and cessation of production of nuclear weapons material.

A follow-on meeting of experts will be held in London in September to develop guidelines and elaborate on procedures which then will be reviewed at another plenary meeting in London on October 17/18, 1991.

Administration Legislation Initiatives

I would like to spend a few minutes on two legislative initiatives by the Administration, namely a re-write of the Foreign Assistance Act (FAA) and a one-year pilot program for defense export guarantees.

The Administration re-write would provide considerably greater flexibility in furnishing assistance and increased authority for the President to meet contingencies and address unanticipated foreign policy requirements. In a similar vein, there would be far fewer reporting and Congressional notification requirements than at present. The major elements of importance to this group are:

- A statement of policy—the five foreign policy objectives I mentioned previously;
- Military assistance would be revised substantially,
- The FMF program would be shifted from the Arms Export Control Act (AECA) to the FAA, thus consolidating all military assistance in the FAA. The AECA would be amended and renamed the Defense Trade and Export Control Act and would pertain both to government-to-government and commercial arms sales;
- A clear procedure for presidential designation of a major non-NATO ally;
- Consolidate and unify Congressional notification procedures for government and commercial sales;
- Raise the thresholds for Congressional notification (\$75m/\$25m vice \$50m/\$14m),
- There would be fewer restrictions on countries that can receive assistance and there would be greater flexibility in granting exceptions;
- The [FAA section] 614 Presidential waiver authority would be broadened and the annual ceiling raised; and,
- Earmarks could be broken for countries that have significantly reduced cooperation with the U.S. and FMF and ESF earmarks could be shaved by 5 percent to allow urgent assistance.

As you can see, this is an ambitious proposal. But it takes its basis from H.R. 2655 which the House passed in 1989. An important aspect of this endeavor is to get an active discussion going with the Congress with a goal of providing greater flexibility for the Administration in carrying out security assistance programs.

The other legislative initiative proposes a one-year pilot program of \$1 billion in credit guarantees for commercial bank financing of defense exports. Key features include:

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- NATO countries, Japan, Israel and Australia would be eligible;
 - Other countries would be eligible if creditworthiness standards are met and the President makes a national interest finding;
 - Only commercial sales would be eligible;
 - Export competition enhancement and economic criteria will drive the program;
 - ExImbank guarantees for non-defense exports will not be reduced; and,
 - Of course, a munitions export license would be required.

Before getting your hopes up, I must tell you that this has become a fairly controversial proposal. Its introduction was coincidental with calls for conventional arms embargoes in the Middle East. Secondly, many non-defense exporters believe that what goes to the defense exporters means that much will be taken away from them.

In fact, the proposed program is not designed to create new markets or to give another country the means to acquire arms. Instead, it is designed to enable U.S. firms to compete for opportunities to meet legitimate defense requirements. Furthermore, provisions have been made for an increase in the ExImbank budget, with sufficient resources to maintain currently available funding. In consultation with the Departments of State, Defense, Commerce, and the Treasury and other appropriate agencies, ExImbank would review the allocation of guarantee authority in light of potential demand for defense and non-defense export guarantees throughout the life of the program.

State Department Support of Defense Trade

Next, I would like to mention some additional steps that we in the State Department have taken, or are taking, to support U.S. defense industries. This part of my remarks is intended to bring you up to date on the initiatives mentioned by Dick Clarke at last year's symposium.

- The department created the Center for Defense Trade;
- It issued new instructions to all diplomatic posts;
- It developed guidance for the gradual relaxation of controls on exports to eastern Europe;
- It supported efforts to minimize the adverse effects of offsets in defense exports; and,
- It led U.S. efforts in COCOM (Coordinating Committee on Multilateral Export Controls) to modernize and strengthen international export controls.

In the licensing area, we expanded from an office of 35 people of whom only four were licensing officers to the current manning of the Office of Defense Trade Controls (DTC) with more than 70 people, of whom more than 20 are licensing officers. We also completed a major computer upgrade which has made life easier both for us and industry. Expanding these operations in the current budget environment was no easy task. We persisted because the State Department leadership believed strongly it had to be done.

The results have been dramatic. A 50-70 percent improvement in license handling. The time required for non-staffed cases has been reduced from 13 business days to four. A non-staffed case

is one which does not require coordination with other elements of the State Department nor with other agencies. Cases requiring staffing have been reduced from 70 business days to 36. Only about one percent of DTC's cases take longer to process. Most of these are requests that either are particularly sensitive for policy or technology reasons or are on hold without action pending receipt of additional information from the applicant.

At the time of last year's symposium, the instructions cable had just been sent out to all posts over Deputy Secretary Eagleburger's signature. It advised posts that they should be responsive to U.S. defense industry sales interests in host nations. It authorized embassy personnel to help U.S. defense industry representatives. It should be noted that such support is allowed for existing markets only and, if more than one U.S. company is involved in a given competition, equal treatment is the rule.

In a post-Cold War development, we have assisted the new democracies of eastern Europe—Poland, Hungary, and Czechoslovakia—in establishing viable export control regimes to protect sensitive technology and to create new opportunities for cooperation. Additionally, we have removed these countries from the International Traffic in Arms Regulations (ITAR) list of prohibited countries (Section 126.1). This would permit careful, case-by-case, review of defense export license applications and joint venture requests.

In another initiative, the President has decided to consult with U.S. friends and allies on the use of offsets in defense procurement. In coordination with the Secretary of State, the Secretary of Defense will be the focal point for this undertaking. An interagency group will consult abroad with a goal of reducing the negative impact of offsets on defense procurement. The group will make recommendations to the National Security Council staff.

In his policy announcement on offsets a year ago, the President indicated that the U.S. Government is committed to the principles of free and fair trade. Thus, certain offsets for defense exports are regarded as market-distorting and economically inefficient. Nonetheless, there is a recognition that, in a competitive environment, some offsets may be necessary. In sum, the President's policy seeks to ensure preservation of the ability of American firms to compete for defense exports.

The last defense trade initiative I want to mention concerns COCOM controls. At a high-level meeting of COCOM in late May, the U.S. and western allies approved a new system of export controls for dual-use goods and technologies—items that have both commercial and military applications. The new International Industrial List (IL)—also known as the "core list"—is more than 50 percent shorter than the previous list. The participants also reviewed measures to strengthen and harmonize their respective export control systems.

With negotiations planned for January 1992, COCOM will focus on revising the International Munitions List (IML). It will be refined to ensure consistency with COCOM embargo lists; however, significant liberalization of IML controls is not anticipated.

The Department of State recognizes that its method of defining munitions is broader than COCOM's. Because of this, a continuing objective is to address such problems by transferring jurisdiction of dual-use goods on the [United States Munitions List] USML to the Commodity Control List (CCL) administered by the Commerce Department. Nevertheless, it is important to understand that there are valid national security concerns about the spread of certain commodities and technologies that need to be fully addressed in assessing export controls.

To summarize, where are we in the post-Desert Storm environment?

- Desert Storm vindicated our historical approach to military assistance and defense exports;
- No change in terms of foreign policy objectives;
- To some extent the defense export industry is in a best of times/worst of times situation;
- The big five arms exporters seek agreement on guidelines and procedures on conventional arms transfers;
- The Administration will continue to work with Congress toward goals of greater flexibility for the President and enhanced competitiveness for U.S. exporters; and,
- The State Department is committed from the top down to working with industry to provide improved administrative responsiveness and to assist in providing a level playing field abroad.

Thank you very much for allowing me to share these thoughts with you. I look forward to an active exchange of views and ideas during this symposium.